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BEFORE THE ARIZONA CORPORATION COMMISSION

LEA MÁRQUEZ PETERSON
ChairwomanSANDRA D. KENNEDY
CommissionerJUSTIN OLSON
CommissionerANNA TOVAR
CommissionerJIM O'CONNOR
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 5 2021

DOCKETED BY

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR A HEARING TO)
DETERMINE THE FAIR VALUE OF THE)
UTILITY PROPERTY OF THE COMPANY)
FOR RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON, TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP)
SUCH RETURN)

DOCKET NO. E-01345A-16-0036
E-01345A-16-0123DECISION NO. 77998ORDER

IN THE MATTER OF FUEL AND)
PURCHASED POWER PROCUREMENT)
AUDITS FOR ARIZONA PUBLIC SERVICE)
COMPANY)

**THE APPLICATION OF ARIZONA
PUBLIC SERVICE COMPANY FOR
APPROVAL OF LOST FIXED COST
RECOVERY MECHANISM
ADJUSTMENT**

Open Meeting
April 13 and April 14, 2021
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

Application

2. On February 16, 2021, pursuant to Decision No. 76295 (August 18, 2017), Arizona Public Service Company ("APS") filed an application ("Application") with the Arizona Corporation Commission ("Commission") requesting approval to its revised Lost Fixed Cost Recovery ("LFCR") mechanism adjustment. The LFCR is a rate design mechanism intended to assist in the recovery of the revenue requirement authorized by the Commission. The LFCR, which was initially

1 approved by the Commission in Decision No. 73183 (May 24, 2012), and modified in Decision No.
2 76295, allows for APS to recover the lost fixed costs due to the energy efficiency ("EE") savings and
3 distributed generation ("DG") requirements, specified in Arizona Administrative Code ("A.A.C.") R14-
4 2-2404.B and R14-1804.B, respectively.

5 3. Pursuant to Decision No. 76295, for customers on a three-part (demand) rate, the LFCR
6 rate is calculated on a per kilowatt ("kW") rate each month. For Customers on a two-part (energy) rate,
7 the LFCR rate is calculated on a per kilowatt-hour ("kWh") rate each month. Costs recovered through
8 the LFCR rate include the portion of distribution costs included in base rates, less what is already
9 recovered by the Basic Service Charge, and 50 percent of demand revenues associated with distribution.
10 APS is requesting that the new LFCR rate be changed from \$0.372/kW to \$0.509/kW per month for
11 customers on a demand rate and from \$0.00125/kWh to \$0.00170/kWh per month for customers on an
12 energy-only rate.

13 4. The LFCR Plan of Administration ("POA") describes how the LFCR operates. The POA
14 indicates that no later than February 15 of each year, APS will file its calculation of the annual LFCR
15 adjustment, based on the EE and DG savings from the previous calendar year. APS uses actual data
16 through September and forecast data for October through December to calculate the LFCR rate. Each
17 year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions
18 to verified EE and DG sales reductions in those particular months. There is also a balancing account
19 that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by APS
20 through the LFCR adjustment. This difference is accounted for in the subsequent LFCR filing made to
21 the Commission.

22 5. In addition, pursuant to the LFCR POA, APS used metered data to calculate DG savings
23 for 2020. Decision No. 76295 also created a set of residential DG installations that are grandfathered
24 under the Commission's net metering rules, as these customers had completed interconnection
25 agreements prior to the effective date of Decision No. 76295. Also, grandfathered systems installed after
26 December 31, 2013, are subject to a \$0.70/kW LFCR DG rate in accordance with Decision No. 74202
27 (December 3, 2013). Further, new residential DG systems not on a demand rate pay a monthly grid
28 access charge of \$0.93/kW, approved in Decision No. 76295. These collections are reflected as credits

1 to the LFCR adjustment.

2 6. Further, the year-over-year increase in the LFCR adjustment cannot exceed 1 percent
3 of the Applicable Company Revenues which are defined in the LFCR POA. If the annual LFCR
4 adjustment results in a surcharge and the annual incremental increase exceeds the 1 percent cap of
5 Applicable Company Revenues, any amount in excess of the 1 percent cap is deferred for collection
6 until the first future adjustment period in which including the excess costs would not cause the annual
7 increase to exceed the 1 percent cap. The interest rate applied to any deferred balance is calculated
8 using the one-year Nominal Treasury Constant Maturities rate, as published on the Federal Reserve
9 website or its successor publication. The interest rate is adjusted annually and will be the annual
10 rate applicable on the first business day of the calendar year.

11 7. The LFCR rate applies to all customer rate schedules, except for customers served
12 under the following rate schedules: E-30, E-32L, E-32 TOU L, E-34, E-35, E-36XL, XHLF and
13 unmetered lighting schedules including E-47, E-58, E-59, and Contract 12. Customers taking
14 service under any of these excluded rate schedules are not subject to the LFCR adjustment because
15 other Commission approved rate designs are in place to address lost fixed costs.

16 **Staff Analysis and Recommendations**

17 8. Based on the LFCR POA, the calculations would result in a new LFCR rate of
18 \$0.509/kW per month for customers on a demand rate and \$0.00170/kWh per month for customers
19 on an energy-only rate. Both the new proposed per kW and kWh LFCR rates represent an increase
20 in the current per kW and kWh rates. Based on a 12 month average for residential customers, APS
21 has calculated that this change in the LFCR rate would result in an average bill increase of \$0.83 per
22 month (0.60 percent) for residential customers on a demand rate using an average of 1,064 kWh and
23 6.1 kW per month and an average bill increase of \$0.50 per month (0.35 percent) for residential
24 customers on an energy-only rate using an average of 1,064 kWh per month. The impact on retail
25 revenues from the new LFCR rate is an overall estimated revenue recovery of approximately \$38.5
26 million, approximately \$11.9 million more than the previous year's revenue recovery of
27 approximately \$26.6 million.

28 ...

10. Based on the above, Staff recommends that an LFCR rate of \$0.509/kW per month for customers on a demand rate and \$0.00170/kWh per month for customers on an energy-only rate be approved, effective with the first billing cycle of May 2021.

1. Arizona Public Service Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

3. The Commission, having reviewed the Application and Staff's memorandum dated March 30, 2021, concludes that it is not in the public interest to approve the proposed increase in the current Lost Fixed Cost Recovery rates.

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ORDER


IT IS THEREFORE ORDERED that the proposed increase in the current Lost Fixed Cost Recovery rates is denied.

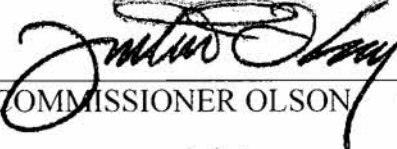
IT IS THEREFORE ORDERED that the current Adjustment Schedule LFCR shall remain in effect until further Order of the Commission.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

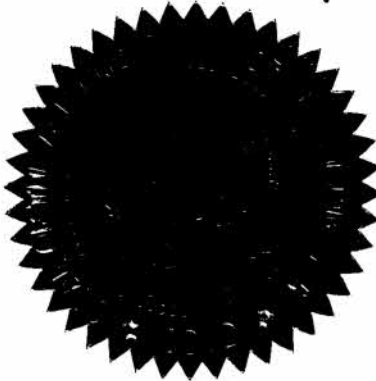

CHAIRWOMAN MARQUEZ PETERSON


COMMISSIONER KENNEDY



COMMISSIONER OLSON


COMMISSIONER TOVAR

ABSTAINED
COMMISSIONER O'CONNOR



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 5 day of May, 2021.


MATTHEW J. NEUBERT
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EOA:CLA:tmb/MAS

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